

Message Text

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DRAFTED BY ARA:NC:TWSONANDRES

APPROVED BY L - MR. LEIGH

ARA - MR. ROGERS

NEA - MR. SOBER

EB - MR. KATZ

T - MR. MAW (INFO)

S/S - MR. ORTIZ

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FM SECSTATE WASHDC

TO AMEMBASSY CARACAS IMMEDIATE

AMEMBASSY KUWAIT

AMEMBASSY JIDDA

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EXDIS

E.O. 11652: GDS

TAGS: ENRG, US, VE, KU, SA

SUBJECT: DEPARTMENT SEPTEMBER 19 MEETING WITH US OIL
COMPANY REPRESENTATIVES

REF: STATE 225067

SUMMARY: AT THE REQUEST OF THE SECRETARY, DEPARTMENT
OFFICIALS MET FRIDAY, SEPTEMBER 19 WITH REPRESENTATIVES OF
TEN US PETROLEUM COMPANIES WITH OPERATIONS IN VENEZUELA,
KUWAIT, AND SAUDI ARABIA. PRINCIPAL PURPOSE WAS TO
EXPRESS, ON CONFIDENTIAL BASIS, DEPARTMENT APPROACH TO
PROBLEMS OF NATIONALIZATION AND PARTICIPATION IN THOSE
THREE COUNTRIES AND EXCHANGE VIEWS WITH THE US COMPANIES
INVOLVED. READING FROM PREPARED TALKING POINTS, DEPARTMENT
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REPRESENTATIVES STRESSED OUR NATIONAL INTEREST IN US
COMPANIES MAINTAINING ONGOING RELATIONSHIPS IN THESE
COUNTRIES, NOTED OUR PRESENT POLICY OF NOT TAKING A DIRECT
ROLE IN CURRENT NEGOTIATIONS, AND SUGGESTED, ON AN

UNATTRIBUTED AND CONFIDENTIAL BASIS, THAT COMPANIES CONSIDER CONDITIONING THEIR RELINQUISHMENT OF RIGHTS TO FULLER COMPENSATION ON THE PERFORMANCE OF THE NEW CONTRACTS. DEPARTMENT ALSO OFFERED, AS IN PAST, TO MEET COMPANIES ON INDIVIDUAL BASIS. IN QUESTION AND ANSWER SESSION WHICH FOLLOWED, ABOVE THEMES WERE REITERATED. IT IS UNCLEAR

WHETHER THE MEETING WILL AFFECT COMPANY NEGOTIATING POSITIONS, ALTHOUGH COMPANIES MAY SEEK INDIVIDUAL MEETINGS WITH THE DEPARTMENT. END OF SUMMARY.

1. AT THE REQUEST OF THE SECRETARY, DEPARTMENT OFFICIALS MET FOR SIXTY-FIVE MINUTES ON SEPTEMBER 19 WITH REPRESENTATIVES OF TEN US PETROLEUM COMPANIES HAVING INTERESTS IN VENEZUELA, KUWAIT, AND SAUDI ARABIA ON CONFIDENTIAL BASIS TO EXPRESS DEPARTMENT APPROACH TO PROBLEMS OF NATIONALIZATION AND PARTICIPATION AND TO EXCHANGE VIEWS ON THE COMPENSATION ISSUE IN THOSE THREE COUNTRIES. COMPANIES WERE: EXXON, TEXACO, STANDARD OIL OF CALIFORNIA, MOBIL, GULF, ARCO, SUN, PHILLIPS, AND CONTINENTAL. DEPARTMENT'S PRINCIPAL PARTICIPANTS WERE: UNDER SECRETARY FOR SECURITY ASSISTANCE CARLYLE MAW, LEGAL ADVISER MONROE LEIGH WHO LED DISCUSSION, ARA ASSISTANT SECRETARY WILLIAM ROGERS, NEA DEPUTY ASSISTANT SECRETARY SIDNEY SOBER, AND EB DEPUTY ASSISTANT SECRETARY JULIUS KATZ.

2. THE MEETING BEGAN WITH MR. LEIGH, LATER FOLLOWED BY MR. ROGERS, READING FROM PREPARED TALKING POINTS (TEXT WHICH SENT CARACAS IN REFTEL, BEING SENT JIDDA AND KUWAIT IN SEPTTEL). MR. LEIGH NOTED THE COMMON USG-COMPANY INTEREST IN SUCCESSFUL CONCLUSIONS OF VENEZUELAN NATIONALIZATION NEGOTIATIONS AND PARTICIPATION NEGOTIATION IN KUWAIT AND SAUDI ARABIA AND THE CONTINUED US COMPANY DEVELOPMENT AND MARKETING OF OIL IN THE COUNTRIES CONCERNED. HE SAID THAT PAYMENT OF ONLY NET BOOK VALUE FOR INSTALLATIONS IS UNLIKELY, EXCEPT IN VERY RARE CASES, TO
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CONSTITUTE, OF ITSELF, ADEQUATE COMPENSATION FOR RIGHTS COMPANIES ARE SURRENDERING. HOWEVER, WITH THE ADDITIONAL PROFITS DERIVED FROM ON-GOING CONTRACTS, SATISFACTORY ARRANGEMENTS COULD BE STRUCK. HE SUGGESTED THAT COMPANIES CONSIDER CONDITIONING THE RELINQUISHMENT OF RIGHTS TO COMPENSATION BEYOND THAT WHICH GOVERNMENTS NOW UNDERTAKE TO PAY ON THE PERFORMANCE OF THE CONTRACTS FOR ONGOING OPERATIONS SO THAT COMPANIES WOULD BE ON STRONGER GROUND, IF A GOVERNMENT SHOULD REPUDIATE THE ONGOING CONTRACTS, TO MAINTAIN CLAIMS TO THE FULLER COMPENSATION. HE RECOGNIZED DIFFICULTIES IN CARRYING OUT SUCH A PROPOSAL, NOTING THAT WE ARE NOT URGING A COURSE OF ACTION TO BE TAKEN PREJUDICIAL TO THE CONTINUED PARTICIPATION OF OUR

OIL COMPANIES IN VENEZUELA AND THE MIDDLE EAST.

3. CONTINUING WITH THE DEPARTMENT'S FORMAL PRESENTATION, MR. ROGERS COMMENTED ON THE VENEZUELAN NATIONALIZATION. HE REFERRED TO THE CONSIDERABLE POLITICAL RISK OF THE

GOVERNING AD PARTY IN INCLUDING ARTICLE 5 IN THE NATIONALIZATION LAW ALLOWING FOR FUTURE GOVERNMENT-COMPANY ASSOCIATIONS, A MOVE SYMBOLIC OF GOV INTEREST IN CONTINUING COLLABORATION BY THE US COMPANIES IN THE VENEZUELAN OIL INDUSTRY. HE NOTED OUR AWARENESS OF PROBLEMS WHICH COMPANIES FACE, OFFERING, AS IN PAST, OUR READINESS TO CONSULT INDIVIDUALLY. HE STRESSED THAT THE NEW FORM OF RELATIONSHIP CAN PRESERVE CONTINUING PRIVATE PROFITABILITY AS WELL AS A VERY IMPORTANT US GOAL WHICH IS A MUTUALLY PRODUCTIVE RELATIONSHIP WITH AN IMPORTANT LATIN AMERICAN COUNTRY.

4. MR. LEIGH, CONCLUDING THE PREPARED TALKING POINTS, ASKED THAT THE DEPARTMENT APPROACH NOT BE ATTRIBUTED TO THE USG IN ANY COMMUNICATION WITH FOREIGN GOVERNMENTS OR THE PRESS. MR. SOBER REAFFIRMED THE PARAMOUNT USG INTEREST IN HAVING A CONTINUED US COMPANY PRESENCE IN THE MIDDLE EAST, OBSERVING THAT APPROACHES VARIED IN EACH COUNTRY.

5. IN QUESTION AND ANSWER SESSION WHICH FOLLOWED, COMPANIES SOUGHT DEPARTMENT VIEW ON SPECIFIC ASPECTS OF
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CURRENT NEGOTIATIONS AND FUTURE CONTINGENCIES. QUESTIONS DEALT WITH USG POSITIONS ON THE POSSIBLE ATTACHMENT IN US OF FOREIGN OIL (TAKEN FROM EXPROPRIATED CONCESSION AREAS) IF ADEQUATE COMPENSATION IS NOT OBTAINED, ON THE LACK OF COMPENSATION FOR THE LOSS OF THE CONCESSIONARY RIGHTS PER SE, ON THE ACCEPTABILITY OF TEN-YEAR, SIX PERCENT COMPENSATION BONDS PROFFERED BY VENEZUELA, AND ON THE PRACTICALITIES OF COMPANY INSISTENCE UPON THE REVIVED VALIDITY OF CURRENT CONTRACTS IF NEW ONES ARE BROKEN. DEPARTMENT OFFICIAL RESPONDED THAT WE ARE NOT NOW IN A POSITION TO SPEAK TO SPECIFIC DETAILS OF THE NEGOTIATION OR RESPOND TO WHAT THE USG WOULD DO IN CONTINGENCIES THAT HAVE NOT ARISEN. RATHER, WE BELIEVE THAT THE US NATIONAL INTEREST IN ENHANCING THE GOVERNMENT-COMPANY NEGOTIATING CLIMATE IS BEST ACHIEVED AT THE MOMENT BY A USG POSITION THAT ALLOWS MAXIMUM FLEXIBILITY FOR THE COMPANIES TO CONDUCT THEIR NEGOTIATIONS, LEAVING THE USG FREE TO ACT, IF APPROPRIATE, IN THE FUTURE.

6. MR. MAW EXPRESSED OUR AWARENESS OF THE DIFFICULTIES IN NEGOTIATING A SETTLEMENT. HE NOTED THAT IT MAY EVEN BE COUNTERPRODUCTIVE FOR A COMPANY TO PRESS OUR SUGGESTED

APPROACH -- THIS COMPANIES WILL HAVE TO WORK OUT IN EACH CASE. REGARDING THE NATIONAL INTEREST, HOWEVER, HE SAID THAT THE GREATER THE COMPANY PRESENCE IN THESE COUNTRIES, THE BETTER OFF WE ALL ARE. HE ADDED THAT WE HAVE A HIGH

DEGREE OF CONFIDENCE IN THE COMPANIES' NEGOTIATING SKILLS.

7. OTHERWISE, QUESTION AND ANSWER SESSION SERVED TO REITERATE POINTS OF THE DEPARTMENT'S FORMAL PRESENTATION. WE ALSO NOTED THAT NO ADDITIONAL GROUP SESSIONS ARE PLANNED, ALTHOUGH INDIVIDUAL MEETINGS ARE WELCOMED.

8. COMMENT: COMPANIES APPARENTLY UNDERSTOOD A) THAT BY PRESERVING THEIR CLAIMS IN THIS FASHION THEY EQUALLY WOULD PRESERVE RIGHT OF USG TO ESPOUSE SUCH CLAIMS ON THEIR BEHALF AND B) USG POLICY IS NOT NOW TO INTERVENE IN NEGOTIATIONS. IT WAS MADE CLEAR THAT THE DEPARTMENT IS PREPARED TO CONSIDER SPECIFIC PROBLEMS OF COMPANIES.

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9. NOT SURPRISINGLY, COMPANIES CHOSE NOT TO DIVULGE THEIR REACTION TO PRESENTATION. COMPANIES ARE NOT TRADITIONALLY CANDID IN EACH OTHERS PRESENCE. AT THIS MEETING, OIL REPRESENTATIVES LIMITED THEIR POINTS TO CLARIFYING DETAILS OF THE DEPARTMENTS PRESENTATION AND EXPLORING THEIR RAMIFICATIONS, PREFERRING NOT TO COMMENT ON THEIR COMPANIES' POSITIONS ON THE DEPARTMENT'S SUGGESTION. IT IS UNCLEAR AT THIS JUNCTURE WHETHER OUR SUGGESTION WILL AFFECT THE NEGOTIATING POSITIONS OF THE COMPANIES, ALTHOUGH WE DO ANTICIPATE THAT SOME WILL SEEK INDIVIDUAL APPOINTMENTS WITH US IN THE WEEKS AHEAD. WE CANNOT RULE OUT NEGATIVE OUTCOMES IF THERE IS DISCLOSURE WE ARE CONCERNED TO AVOID DISCLOSURE OF OUR APPROACH TO FOREIGN GOVERNMENTS AND PRESS, A CONCERN WE EXPRESSED TO THOSE PRESENT AT MEETING. WE ARE DRAFTING CONTINGENCY PRESS GUIDANCE WHICH, IF NEEDED, WILL BE SENT POSTS.

10. YOU SHOULD NOT, OF COURSE, TAKE ANY INITIATIVES IN DISCUSSING THIS APPROACH WITH HOST GOVERNMENT OFFICIALS OR WITH LOCAL PETROLEUM COMPANY REPRESENTATIVES. PLEASE LIMIT ACCESS TO THIS CABLE ONLY TO THOSE MEMBERS OF YOUR IMMEDIATE STAFF WHO NEED TO KNOW. END COMMENT. KISSINGER

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